

MANTSOPA LOCAL MUNICIPALITY (FS196)

# FINAL (BUDGET)MTREF FORECAST 2017/18

BUDGET

2017

38 JOUBERT STREET LADYBRAND

## **PART 1 – DRAFT BUDGET**

### **1.1 Council Resolutions**

On ..... the Council of Mantsopa Local Municipality met in the Council Chambers of Mantsopa Local Municipality to consider the Draft budget of the municipality for the financial year 2017/18. The Mayor to table the following resolutions:

1. The Council of Mantsopa Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) adopts:

1.1. The draft budget of the municipality for the financial year 2017/18 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification)

1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)

1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type)

1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.

2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in annexure A

3. The Council of Mantsopa Local Municipality, acting in terms of section 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000) adopts with effect from 1 July 2017:

2.1. Rates policy

2.2. Tariff Policy

2.3. Indigent Policy

2.4. Credit Control and Debt Collection Policy

2.5. Supply Chain Management Policy

2.6. Budget Policy

2.7. Cash and Investment Policy

4. The Council of Mantsopa Local Municipality, acting in terms of 75(a) of the Local Government: Municipal Systems Act (Act 32 of 2000) adopts with effect from 1 July 2017 the tariffs for other services.

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## **Mayor's Report**

Mantsopa Local Municipality is in no way immune to the harsh economic realities associated with the recession. Among the impacts are the serious cash flow challenges currently being experienced by the municipality due to among other things declining collection rates; historic expenditure patterns and a general lack of "doing business smarter".

Management within local government has a significant role to play in strengthening the link between the citizen and governments overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Mantsopa Local Municipality. The Draft budget is as per MFMA 56 of 2003 section 16 necessary to;

- Setting out realistically anticipated revenue for the budget year from each revenue source;
- Appropriating expenditure for the budget year under different votes of the municipality;
- Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- Setting out estimated revenue and expenditure by vote for the current year, and actual revenue and expenditure for the financial year preceding the current year;
- A statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.

The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

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## **Executive Summary**

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury's MFMA Circular No. 51, 54, 66, 67, 78, 79, 85 and 86 were used to guide the compilation of the 2017/18 Draft budget.

The main challenges experienced during the compilation of the 2017/18 Draft budget can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Ageing and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2015/16 adjustment budget process.

The following budget principles and guidelines directly informed the compilation of the 2017/18 Draft budget:

- The 2017/18 MTREF priorities and targets, as well as the base line allocations contained in that 2017/18 MTREF were adopted as the upper limits for the new baselines for the 2017/18 Draft budget;
  - Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
  - Tariff and property rates have slightly increased from the 6% to the 7% stated in the budget,
  - There will be no budget allocated to national and provincial funded projects, unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act.
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## **Overview of the annual budget process**

- Section 21 of the Municipal Finance Management Act No. 56 of 2003, this section outlines the process of the budget, the mayor's responsibility and the timelines that the mayor should follow in preparing the Draft budget of the municipality.

## **IDP and Service Delivery and Budget Implementation Plan**

The IDP has been taken into consideration with the preparation of the Draft budget.

With the compilation of the 2017/18 Draft budget, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2017/18 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

In the absence of a petty cash policy and the requirement of the MFMA on proper management of expenditure a policy has been prepared and is attached for adoption.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Draft budget Medium-term Revenue and Expenditure Framework:

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**Table 1 Consolidated Overview of the 2016/17 Draft Budget**

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	INCOME		EXPENSES	
	Adjustment Budget	Budget	Adjustment Budget	Budget
DETAILS	2016/17	2017/18	2016/17	2017/18
<b>Governance and Administration</b>				
<b>Municipal Manager</b>				
Municipal Manager	-4,557,394.41	-4,741,461.81	4,537,194.41	4,741,461.81
Performance department	-697,409.90	-1,103,117.64	892,409.90	1,103,117.64
IDP	-1,172,527.95	-1,293,739.89	977,527.95	1,293,739.89
<b>Total Municipal Manager</b>	<b>-6,427,332.26</b>	<b>-7,138,319.35</b>	<b>6,407,132.26</b>	<b>7,138,319.35</b>
<b>Council</b>				
Mayor	-2,051,291.83	-4,102,078.23	1,901,241.83	4,102,078.23
Speaker	-2,470,387.88	-3,257,806.34	2,445,687.88	3,257,806.34
Council	-5,912,000.00	-5,582,541.62	5,648,000.00	5,582,541.62
<b>Total Council</b>	<b>-10,433,679.71</b>	<b>-12,942,426.18</b>	<b>9,994,929.71</b>	<b>12,942,426.18</b>
<b>Total Executive and Council</b>	<b>-16,861,011.97</b>	<b>-20,080,745.53</b>	<b>16,402,061.96</b>	<b>20,080,745.53</b>
<b>Finance</b>				
Financial Services	-42,535,798.77	-41,560,695.52	48,291,056.39	46,319,987.56
Property Rates	-13,700,535.27	-14,714,136.22	0.00	
<b>Total Finance</b>	<b>-56,236,334.04</b>	<b>-56,274,831.74</b>	<b>48,291,056.39</b>	<b>46,319,987.56</b>
<b>Corporate Services</b>				
Administrative Services	-35.00	-50.00	8,129,259.48	8,658,202.27
<b>Total Administration Services</b>	<b>-35.00</b>	<b>-50.00</b>	<b>8,129,259.48</b>	<b>8,658,202.27</b>
<b>Total Finance and Administration</b>	<b>-56,236,369.04</b>	<b>-56,274,881.74</b>	<b>56,420,315.88</b>	<b>54,978,189.82</b>
Internal Audit	-1,903,685.47	-1,557,403.95	1,903,685.47	1,557,403.95
<b>Total Internal Audit</b>	<b>-1,903,685.47</b>	<b>-1,557,403.95</b>	<b>1,903,685.47</b>	<b>1,557,403.95</b>
<b>Community Services &amp; Public Safety</b>				
<b>Community services</b>				
Community Services Director	-3,912,788.15	0.00	3,912,788.15	0.00
Parks and Recreation	0.00	0.00	5,244,855.10	5,111,076.79
Libraries	-1,249,421.56	0.00	1,249,421.26	0.00
Housing:	-1,821,005.40	-2,564,875.37	1,821,005.50	2,564,875.37
Cemeteries	-1,024,792.28	-708,627.00	0.00	0.00
Properties	-5,345,242.19	-1,359,625.00	1,814,664.81	2,681,518.84
<b>Total Community Services</b>	<b>-13,353,249.58</b>	<b>-4,633,127.37</b>	<b>14,042,734.82</b>	<b>10,357,471.00</b>
<b>Public Safety</b>				
Firebrigade	-2,392,901.35	-3,839,403.43	2,392,901.29	3,839,403.43
Traffic	-2,644,871.84	-2,945,545.27	2,644,871.85	2,945,545.27
Total Public Safety	-5,037,773.19	-6,784,948.70	5,037,773.14	6,784,948.70
<b>Total Community Services &amp; Public Safety</b>	<b>-18,391,022.77</b>	<b>-11,418,076.06</b>	<b>19,080,507.96</b>	<b>17,142,419.70</b>
<b>Planning&amp; Economic Development</b>				
Planning Management Unit	-953,050.00	-1,012,600.00	1,416,619.86	1,483,044.45
Local Economic Development	-779,776.49	-1,362,750.94	779,776.49	1,362,750.94
Roads and Streets	-13,660,856.53	-19,646,573.00	5,859,243.04	7,079,396.94
<b>Total Planning&amp; Economic Development</b>	<b>-15,393,683.02</b>	<b>-22,021,923.94</b>	<b>8,055,639.39</b>	<b>9,925,192.33</b>
<b>Trading Services</b>				
Electricity	-40,195,480.00	-52,592,237.55	43,949,190.02	47,072,991.52
Water Network	-67,020,000.00	-58,506,737.80	23,913,719.25	32,115,005.46
Sanitation Network	-27,174,000.00	-32,911,200.00	15,292,613.10	20,942,513.08
Refuse	-15,014,000.00	-22,351,280.00	14,447,531.02	19,321,169.69
<b>Total Trading Services</b>	<b>-149,403,480.00</b>	<b>-166,361,455.35</b>	<b>97,603,053.39</b>	<b>119,451,679.76</b>
<b>TOTAL</b>	<b>-258,189,252.27</b>	<b>-277,714,486.57</b>	<b>199,465,264.05</b>	<b>223,135,631.09</b>
<b>Capital Expenditure</b>		<b>0.00</b>	<b>0.00</b>	<b>46,964,400.00</b>
<b>(Surplus)/Deficit</b>				<b>-7,614,455.48</b>

Total operating expenditure for the 2017/18 financial year has been appropriated at R 223 135 631. That results in an operating surplus of R 7 614 455. Although the budget has realised a surplus, this still however put the Municipality under serious strain as this is not sufficient to fund capital projects with own revenue. The surplus must also be directed to reduce the ESKOM debt as well as DBSA loan. ESKOM has accepted the Municipality's payment plan and an amount of R 11 400 000 must be paid towards the historical debt.

Provision for the ESKOM debt has been reflected in the A1 schedule version 6.1 under SA30 cash-flow; other cash-flow payments and for DBSA reflected as repayment of repayment of borrowing. These provisions have also been indicated under A8: Reserves Reconciliation

### **Operating Revenue Framework**

For Mantsopa Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality.

The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
  - Growth in the Municipality and continued economic development;
  - Efficient revenue management, which aims to increase the annual collection rate for property rates and other key service charges;
  - Achievement of full cost recovery of specific user charges especially in relation to trading services;
  - Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
  - The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
  - Increase ability to extend new services and recover costs;
  - The municipality's Indigent Policy and rendering of free basic services; and
  - Tariff policies of the Municipality.
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The following table is a summary of the 2017/18 Draft Budget MTREF (classified by main revenue source and Expenditure):

FS196 Mantsopa - Table A4 Budgeted Financial Performance (revenue and expenditure)			
Description	2017/18 Medium Term Revenue &		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand			
<b>Revenue By Source</b>			
Property rates	14,714	15,553	16,424
Service charges - electricity revenue	40,413	42,717	45,109
Service charges - water revenue	34,872	36,860	38,924
Service charges - sanitation revenue	24,751	26,162	27,627
Service charges - refuse revenue	17,057	18,030	19,039
Service charges - other	-	-	-
Rental of facilities and equipment	1,070	1,131	1,194
Interest earned - external investments	400	423	446
Interest earned - outstanding debtors	25,000	26,425	27,905
Dividends received	20	21	22
Fines, penalties and forfeits	1,006	1,063	1,123
Transfers and subsidies	72,472	78,160	83,610
Other revenue	875	925	976
Gains on disposal of PPE	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>232,650</b>	<b>247,469</b>	<b>262,400</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are included in the financial performance, as inclusion of these revenue sources would increase the surplus before the capital expenditure.

- Electricity is the largest revenue source totalling to R40 413 000;
- Water being the second largest revenue source totalling R38 872 000.
- The third largest source is sanitation which also totals to R24 751 000.
- Refuse removal is the 4<sup>th</sup> source of revenue totalling R17 057 000.

Property rates covers the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R80 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA);
- 50% rebate will be granted on all residential properties.

- The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2017/18 draft budget financial year based on a 0.006000 cent per Rand.

Operating grants and transfers have increased from R71 882 570 in the 2016/17 budget to R72 471 600 in the 2017/18.

### **Operating Expenditure Framework**

The municipality's expenditure framework for the 2017/18 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no budget no project plans*. If there is no business plan no funding allocation can be made.

Total operating expenditure for the 2017/18 financial year has been appropriated at R 223 135 631. That results in an operating surplus of R 7 614 455. Although the budget has realised a surplus, this still however put the Municipality under serious strain as this is not sufficient to fund capital projects with own revenue. The surplus must also be directed to reduce the ESKOM debt as well as DBSA loan. ESKOM has accepted the Municipality's payment plan and an amount of R 11 400 000 must be paid towards the historical debt.

Provision for the ESKOM debt has been reflected in the A1 schedule version 6.1 under SA30 cash-flow; other cash-flow payments and for DBSA reflected as repayment of repayment of borrowing. These provisions have also been indicated under A8: Reserves Reconciliation. The budgeted allocation for employee related costs for the 2017/18 financial year totals R81 683 888, which equals 36.61% of the total operating expenditure. This excludes R6 055 116.41 allocated for Councillor Allowances. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7.4% for the 2017/18 financial year. However due to the current job evaluations that the Municipality is under-going there has be a 1% additional increment to the salaries budget. The evaluation could result in increasing or decreasing salary scales hence the additional 1%. An annual increase of 6.7% and 6.6% has been included in the two outer years of the MTREF respectively.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 60% and the Debt Write-off Policy of the municipality. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the

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municipality, as well as the municipality's realistically anticipated revenues. This provision of 40% equals an amount of R 44 528 000 in rand value.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R5 032 166 for the 2017/18.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Bloem Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses. Eskom has a debt of over 80million that the municipality need to pay, however due to a lower collection rate it makes it impossible to meet the financial obligations that the municipality has.

### **Priority given to repairs and maintenance**

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2017/18 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

Other materials comprise of amongst others the purchase of materials for maintenance, cleaning materials and chemicals. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the municipality's infrastructure. The appropriation against this group of expenditure has been budgeted an amount of R5 037 600.

### **Free Basic Services: Basic Social Services Package**

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register **4000**(four thousand) or more indigent households during the 2017/18 financial year, a process reviewed annually.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

The following table is a summary of the 2017/18 Operating Expenditure

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FS196 Mantsopa - Table A4 Budgeted Financial Performance (revenue and expenditure)			
Description R thousand	2017/18 Medium Term Revenue &		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>Expenditure By Type</b>			
Employee related costs	81,684	86,340	91,175
Remuneration of councillors	6,055	6,400	6,759
Debt impairment	44,528	47,066	49,701
Depreciation & asset impairment	5,032	5,319	5,617
Bulk purchases	40,533	42,843	45,242
Other materials	5,038	5,325	5,623
Contracted services	12,461	13,171	13,908
Other expenditure	27,800	29,385	31,031
<b>Total Expenditure</b>	<b>223,130</b>	<b>235,848</b>	<b>249,056</b>

### Capital Expenditure

The following table gives a breakdown of the capital expenditure as per department.

FS196 Mantsopa - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding			
Vote Description R thousand	2017/18 Medium Term Revenue &		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>Capital Expenditure - Functional</b>			
<i>Community and public safety</i>	593	-	-
Community and social services	593	-	-
<i>Economic and environmental services</i>	18,647	20,138	21,086
Planning and development	-	-	-
Road transport	18,647	20,138	21,086
Environmental protection	-	-	-
<i>Trading services</i>	27,725	44,200	36,000
Energy sources	11,725	4,200	5,000
Water management	16,000	40,000	31,000
<b>Total Capital Expenditure - Functional</b>	<b>46,964</b>	<b>64,338</b>	<b>57,086</b>
<b>Funded by:</b>			
National Government	45,064	64,338	57,086
Transfers recognised - capital	45,064	64,338	57,086
Internally generated funds	1,900	-	-
<b>Total Capital Funding</b>	<b>46,964</b>	<b>64,338</b>	<b>57,086</b>

The table above illustrate the capital expenditure of the municipality. The expenditure is outlined per vote structure of the municipality. Mantsopa is a grant depended municipality when it comes to financing its own capital expenditure, we are highly dependent on grants and this is due to the poor collection rate that the municipality is facing. The capital grants received decline by R 22 428 600 from R 56 668 000 to R 34 239 400. However there are two additional grants in-kind to the R 34 239 400, R 1 000 000 for bulk water supply as well as R 9 825 000 that will be given to Eskom for electrification as per the DoRA. Inclusive of the grants in-kind the total for the Capital grants totals to R 45 064 400 as indicated in the capital budget

## Part 2 – Supporting Documentation

Attached please find the A-schedule containing the total Draft budget for 2017/18

### **2.1. Legislation compliance status**

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting  
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively.
  2. Internship programme  
The council is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Since the introduction of the Internship programme the municipality has successfully trained and employed 12 interns. Other interns joined other municipalities.  
  
The Budget and Treasury Office has been established in accordance with the MFMA.
  3. Audit and Risk Committees  
Both the Audit and Risk Committees have been established and are fully functional.
  4. Service Delivery and Implementation Plan  
The detail SDBIP document is at draft stage and will be finalised after approval of the 2017/18 MTREF directly aligned and informed by the 2017/18 MTREF.
  5. Annual Report  
Annual report is compiled in terms of the MFMA and National Treasury requirements.
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### **Municipal manager's quality certificate**

I ....., municipal manager of Mantsopa Local Municipality, hereby certify that the Draft budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the draft budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name \_\_\_\_\_

Municipal manager of Mantsopa Local Municipality (FS 196)

Signature \_\_\_\_\_

Date \_\_\_\_\_

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